MM Fund

Spartan Fund Management

March 2021

Spartan Overview

Spartan, established in 2006, is a Toronto-based investment management company that specializes in niche investment strategies managed by experienced investment managers with proven track records. Spartan's infrastructure adheres to institutional standards with independent risk management and compliance, and well-known third party service providers. This allows our investment management teams to focus on investing and provides investors with the comfort that their money is being managed to the same standard as larger funds.

Fund Overview, Objectives and Strategy

The MM Fund invests utilizing a "core and more" approach. The core portfolio consists of sustainable high yielding or dividend paying Canadian equity securities and, to a lesser extent, real estate investment trusts, convertibles, debt securities, preferred shares and U.S. equity securities.

The "more" consists of equity and debt, plus potentially warrants, small and micro capitalization stocks, that will likely have more volatility but a higher potential for capital gains. We will focus on inexpensive secular growth securities or beaten down stocks that have turnaround potential, because of new management, or because of an improvement in their macro-economic factors. We may also look to shorter-term event driven trading opportunities around, for instance, earnings, politics, war, famine, scandal, seasonality, apathy, etc.

Investments will mostly be made in Canadian equity securities and, to a lesser extent, debt securities and U.S. equity securities. The holdings in the core portfolio will typically be held for longer periods.

Monthly Performance[1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	TSX
2021	+7.38%	+6.55%	+0.57%										+15.07%	+8.05%
2020	+0.28%	-7.56%	-23.35%	+19.76%	+11.04%	+4.93%	+8.05%	+3.47%	-2.24%	+2.83%	+11.00%	+11.20%	+37.54%	+5.60%
2019	+7.98%	+7.53%	+4.11%	+0.81%	-4.35%	+1.08%	+0.93%	-4.74%	+1.47%	+1.74%	+3.40%	+1.89%	+23.19%	+22.88%
2018	+0.18%	-2.09%	-1.89%	+1.97%	+1.52%	-0.24%	+0.27%	-1.27%	-1.31%	-9.60%	-4.81%	-6.09%	-21.54%	-8.89%
2017	-0.75%	+1.52%	+0.66%	+5.43%	+4.21%	+0.77%	-1.67%	-0.69%	+1.43%	+2.36%	+2.77%	+0.59%	+17.69%	+9.10%
2016	-7.00%	+5.44%	+4.12%	+0.65%	+3.51%	+0.48%	+0.95%	+5.75%	+3.49%	+3.15%	+1.04%	+1.67%	+25.13%	+21.08%
2015							-2.26%	-7.10%	-4.19%	+7.05%	+4.11%	+1.13%	-1.95%	-9.93%

Statistics[1]

	MM Fund	TSX
Cumulative Return (since inception)	120.88%	51.98%
Annualized Compound Return	14.88%	7.61%
Last 12 Months Return	122.76%	44.25%
Sharpe Ratio	0.75	0.57
Avg. Monthly Gain	3.76%	2.46%
Avg. Monthly Loss	-4.66%	-2.88%
Max. Drawdown	31.45%	22.25%
Annualized Std. Deviation	19.72%	13.26%
% of Winning Months	71.01%	66.67%
Correlation	0.81	

Fund Information

RSP Eligible?	Yes
Minimum Investment	$500
Invest/Redeem Frequency	Weekly
Short Term Trading Fee	2% if < 30 days
Redemption Notice	1 day
'A' Class Fees (SPA520)	2.00% pa
'D' Class Fees (SPA522)	1.25% pa
'F' Class Fees (SPA521)	1.00% pa
Incentive Fee	10%
Hurdle	TSX Total Return Index

Service Providers

Advisor	Spartan Fund Management Inc.
Custodian	Laurentian Bank Securities
Auditor	Deloitte LLP
Administrator	SGGG Fund Services
Legal Counsel	Borden Ladner Gervais

NAV/Unit

- Class A	212.1546
- Class D	220.8778
- Class F	225.8303

*[1] Performance numbers are net of management and performance fees for the period commencing July 15, 2015 for the Class D units, but do not take into account early redemption fees if investments are held less than 1 year. Returns and statistics for other classes are available on request. '**Monthly**' returns are simple returns and are not annualized. '**Annualized Std. Deviation**' is the standard deviation, which measures the amount of variability of returns that has historically occurred relative to the average return. '**Max. Drawdown**' is the maximum percentage decline, from the highest point to the lowest point. '**Sharpe Ratio**' is the Annualized Compound Return divided by the Annualized Std. Deviation, both measured since inception. **Correlation** measures the degree to which two securities move in relation to each other.*

Monthly Commentary

Reopening continues to be the story for markets as the U.S. now is vaccinating over 4 million people per day, almost as many as Canada has done in total. Although, the virus continues to rage in the U.S. at about 60,000 per day, deaths are down over 90% as the most vulnerable have now been mostly vaccinated.

Although the rest of the world lags Britain and the U.S. in vaccines, reopening is still a global phenomenon as the world economy is expected to show the highest growth in 50 years. The IMF raised the growth forecast for the world to 6% from 5.5%, and Canada to 5% from 3.6%.

The U.S. March jobs report trumped expectations with 916,000 jobs created, and unemployment falling to 6%. The locked down hospitality sector saw 280,000 new jobs with vaccine rollouts, while the construction sector saw 110,000 new jobs on the back of a torrid housing sector.

Wages increased 4.2% year-over-year suggesting inflation is running quite a bit higher than the Fed's 2% target.

The ISM Manufacturing index jumped to a 37 year high in March, suggesting super strong manufacturing growth. The prices paid component is at the highest level in 13 years.

The more important ISM non-manufacturing index, that represents about 75% of the U.S. economy, blew away expectations with a record reading of 63.7 versus the forecast of 59, and 55.3 in February. The record prices paid component of 74 suggesting strong broad-based inflation for everything but personal protective equipment.

Biden's $1.9 trillion coronavirus stimulus package was passed in March, on top of December's $0.9 trillion package. Biden immediately requested a $2.9 trillion infrastructure package. All told extra spending will total $6 trillion, a whopping 29% of GDP, in an economy that is already overheating. The MM portfolio has 3 copper companies, plus an engineering and a transformer company that should benefit greatly from infrastructure and green spending in Canada and the U.S.

Fed officials sharply increased their projections for the annual variation in real GDP in the fourth quarter of 2021, taking it from 4.2% last December to 6.5%. At the same time, the Fed downgraded its projections for the jobless rate, putting it at 4.5% in the final quarter of this year, and taking it to 3.5% at the end of 2023.

What came as a shock to many was how, despite the sharp upward revisions to their forecasts, justified by solid progress on the vaccination campaign and substantial stimulus from the federal government, the Fed did not signal any changes to the conduct of its monetary policy. The Fed still sees no rate hikes through 2023 despite inflation surging above its 2% goal this year, and, with vaccines and the reopening, unemployment plunging to 4.2% by year-end compared to a peak of 14.7% last May.

Fed Chair Powell said "We've said that we would continue asset purchases at this pace until we see substantial further progress, and that's actual progress, not forecast progress. That's a difference from our past approach."

Powell vows to let the economy run hot, even as nominal GDP (Real growth + inflation) approaches 10%: the highest since the inflationary 70s. The problem with this approach is he is throwing bond investors under the bus as he is not concerned about the inflation part of the Fed's dual mandate. Bond yields will keep rising as investors realize the Fed no longer has their back. The irony is that the more dovish the Fed, the higher bond yields, once bond investors become concerned about inflation. By doubling down on dovishness, he is actually pushing yields higher, and letting the bond market tighten financial conditions, while continuing to flood the market with liquidity.

If the Fed is truly data driven, and will not act until the data changes, let's fire the Fed officials and replace them with an algorithm. We'd note tragically that Jay Powell and his crew are not good economists, seemingly not capable of anticipating the effect of Fed actions. In 2018 Fed actions were far too tight, not far too loose, as he robotically raised rates until the S&P 500 crashed 20% and he was forced into a monetary U-turn in January 2019.

We predicted 2% bond yields for 2021, but we are not happy that we are almost there as bond yields hit 1.78% in March, as rising bond yields are the killer of every stock bull market, except the pandemic.

Stock investors are still partying but they should be concerned as the 40 year stock bull market was driven by ever lower yields from above 15% in 1981 to 50 bps in August 2020. Rising yields hurt corporate profitability, hurt indebted consumers and governments, and at some level will crimp stock valuations, particularly high growth stocks whose earnings, if any, are way out in the future, and less valuable with higher rates.

In March the Fund aggressively sold out of two small-cap Covid healthcare stocks as we can now see the end of the epidemic with rising vaccinations. We also sold out of a gold stock, while adding to our copper, energy, and bond holdings. We initiated a position in Telus, a steady growing telecom with a 4.9% yield. Telus operations should benefit if the Rogers/Shaw tie up is approved, and they will also benefit from increased roaming as travel increases. All told the MM portfolio now has a 2.6% yield, and the core portfolio has increased to 65% of the total. The portfolio yield is attractive compared to ten year government bond yields of 1.7%.

We are still optimistic about our "reopening" portfolio and companies that benefit from rising interest rates and inflation. We continue to emphasize the reopening trade with the vaccine rollout, with a focus on inflation protection through financials and commodity stocks. The reopening portfolio has increased to 60.5% of portfolio weight from 56% at the end of February.

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Please review the most recent offering memorandum for a detailed description of the Fund's strategy, objectives and risk factors. The above is provided for informational purposes only and is qualified in its entirety by way of the most recent offering documents, which is only available to qualified investors. Prospective investors should consult with a professional financial advisor before investing. Past performance cannot predict future results. Share value and yields will fluctuate. There can be no assurances that any of the Fund's objectives will be met. See Terms and Conditions of our website (www.spartanfunds.ca) for important information and qualifications regarding the use of benchmarking and indices. The index above was chosen as it is a widely used benchmark of the Canadian equity market. While the Fund uses this index for long-term performance comparisons, it is not managed relative to the composition of the index. There are differences which include security holdings, geographic and sector allocation which impact comparability. As a result, the Fund may experience periods when its performance differs materially from the index. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise indicated, rates of return for periods greater than one year are historical annual compound total returns including changes in unit or share value and reinvestment of all distributions, and do not take into account any sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The Fund is a related and connected issuer of Spartan Fund Management Inc. Spartan may act as dealer in connection with the distribution of securities of the Fund and will also receive management and performance fees from the Fund.